A General Overview of the Mexico-U.S. Relationship Before and After September 11.

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I will take this opportunity in writing this paper to make some general reflections on Mexico's way of economic and social integration to the North American region which includes United States and Canada. I will try to make some comparisons with Asia-Pacific in order to establish what I consider basic differences between these two regions of the world. My paper's plan is quite simple. In the first place I will sketch out some provocative analysis in regarding Mexico's relationship with the US. Secondly I will review NAFTA and its implications so far to assess the impact of September 11th events over the Mexican economy and the Mexico-US bilateral agenda.

FLASHES FROM THE PAST

The start of NAFTA in 1994 was in fact a turning point in Mexican history. Mexico has a collection of various treaties with the US since 1821, and some of them very ominous as the Guadalupe-Hidalgo Treaty in 1848 through which Mexico lost half of its northern territory. The foreign Mexican traditional policy and nationalism that surged as consequence of the revolutionary process after 1910 can not be explained without reference to the Mexican difficult relationship with the US during the major part of the XX Century, such as border problems, control of natural resources, immigration, drug trafficking and so forth. NAFTA is and will become a center piece for the Mexican evolution as a country probably for the rest of the XXI Century and will determine the lives of next generations of Mexicans and its impact will be felt on the whole region.[1]

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[1] In Asia-Pacific probably Korea and China are cases to compare with Mexico. Korea suffering pressures from Japan, China and Russia in the last half of the XIX Century. China under the Treaty-Port System was a semi colony of European Powers.

Mexico is characterized geographically from being not only the south border of the US, but also the cultural frontier between two different worlds in the Americas. US as the North representative of the European Anglo cultures and Mexico in the South as representative of the Iberoamerican culture. The divide is not only linguistic, between English and Spanish (French in Quebec) but reinforced throughout family values, traditions, and religion. Mexico is a country of vast and rich ancient cultures, certainly in its central and southern regions. The Mexican northern frontier was the space of encounter, most of the times eventful and conflictual , between economic, political and cultural forces of this two worlds. Mexico was heavily colonized during three Centuries by the Spanish Empire. By the contrary colonization in the US was not aimed to conquer and subdue a high civilization like the Aztecs in Mexico, but it was instead conducted through European immigration and expelling indigenous people which marked its historic constituency. I agree with the theory that explains the birth of the US national state together with the expansionist impulses that took form as its foreign policy.

After the Mexican war of Independence against Spain in the beginning of the XIX Century, instability with innumerable internal rebellions with civil wars marked the struggle of Mexico toward modernization. On other hand, during that century the northern region witnessed the rise of the American power. It was also the time of US joining to the Unequal Treaties in China (1844). In 1853 Commodore Perry opened Japan after the US acquisition of California and other Mexican territories. In general the second half of this Century saw a further involvement of the US in Asia (immigration to Hawaii, engagement in Philippines). At the same time the economic power of US, through agricultural, mining, oil and manufacturing companies, increased in Mexico. It is well known that during the period of time previous to the Mexican Revolution in 1910, the government tried to diversify and look to Europe as a balancing power to the American's mighty. The Mexican Revolution from 1910 to 1917 was an important political fact for Mexico because it creates a chance to redefine the role of Mexico and its relationship with the US in a long and difficult political context. The Mexican general achievement was to sow the seed of political independence expressed on various points: recovery of control by the new State over its natural resources (oil), and formation of a foreign policy based on the respect to Mexican sovereignty.

Mexico suffered a US punitive military expedition on 1916 to punish one of the Mexican Revolutionary leaders, after his attack to Columbus city, New Mexico. This was the last time US used military force against Mexico. Recognition of the new Mexican government and the problem of oil were the hot issues in the US-Mexican relationship afterwards. Recognition of the new Mexican government in 1924 and later Nationalization of the oil industry in 1938 by the Cardenas government finalized a rough period of time between these two countries. President Roosevelt's New Deal and his "good neighbor" policy were relevant political features in the 30s as well as President Cardenas political and economic reforms that designed and reinforced the Mexican nationalism and independence from the US. Mexico fixed the border in political terms, using its sovereign power, and it would be so for forty years ahead. The term "Distant Neighbors" reflected very well the status of these countries sharing a common border by geography but separated by different national goals.

It is important to underline the fact that Mexico's new economic policies after the forties were aimed at industrializing and developing the country through the import substitution policies, protecting the domestic market and supporting new native private industries. US economic involvement in Mexico changed on nature proceeding to make investments in the new manufacturing fields. Mexican dependence on the US market relaxed but it continued to be the most important Mexican trade partner. Nevertheless in foreign policy Mexico adopted a very independent policy, exerting a very active policy on defense of the third world countries. In various international and regional fora Mexico applied its policies of self-determination of nations and exercise of full respect to sovereignty in any condition. It is well known that Mexico was the only country in the American continent that maintained relations with revolutionary Cuba and it refrained to follow the American policy on Cuba.

Anticommunist policies in Asia, reinforced Japan as regional power again and security policies against communist movements in the East and Southeast Asia were pillars of the economic take off and exporting model in various Asian countries. In Mexico, its political stability and the weak communist threat made US-Mexican relations to go through without any serious conflict. US allowed Mexican political antagonism in the international field in exchange of Mexico's political stability. Moreover there was not US fear of communist spillover on its south border. I believe the Cuban communist threat never reached the potential of disturbance that had the Chinese communist takeover in Asia. A paradoxical situation lingered however when Mexico was trying to maintain a very nationalist and protected model of development but the dependence on American market and investment continued to be a real factor on its economic evolution. In early sixties Mexico tried for the first time to encourage a trade and political diversification policy with Asia and Europe without any relevant success. Later, various new trade and economic diversification attempts were made in the seventies with the same poor results.

The period of the 70s was crucial almost everywhere because of the energy crisis and the change on the international financial markets due to the sudden increase of world liquidity. Mexico as many third world countries got highly indebted breaking up its old policies of financial stability. The enormous size of the external debt prior to the financial crisis of 1982 was the consequence of the limits of the previous economic model based on import substitution industrialization from the 40s to the 70s which in my view was very weak in the promotion of high tech industries and during the 70s until early 80s in which the economy relied heavily in the oil industry affecting the manufacturing industries at large. This resounding failure was the basis for the economic and political crises of the old nationalism and forced that change on the goals pursued by the state which reduced its interventionist role on the economy, abandoned its populist stance and had to rely on policies dictated by the IMF. Opening and deregulation policies were since then issues placed on the top of the Mexican government agenda, just to match what was happening into the world with the policies implemented by Washington of liberalization of trade and markets elsewhere.

Let me stop here to make some remarks on Asia. South Korea was the only country in Asia in this period of time highly indebted. The difference with Latin America is that capital was used to make investments in high tech industries. In the 80s Korea was able to ease the burden of its external debt thanks to its exports increase. More important was the role of Japan in Asia. Due to acute new competition and protectionism in the world markets Japan made investments in Asia to build up exporting platforms encouraging local industries to join this effort. Structural adjustment and manufacturing restructuring were the words for Asia. The famous expression of “Flying Geese Pattern” was the catchphrase of that moment. Later this economic process was reinforced with the investments made by the Asian tigers into the Southeast Asian economies. In Mexico and Latin America there was no such pattern. The new role of the US economy linked Latin American countries through the financial markets. In this sense we must to keep in mind that these two regions through the role of Japan and US were complementary in the restructuring of the economic map of the world. US as an hegemonic world power and Japan as an industrial regional power.

So the eighties were very important for Mexico's future. Its economy was conditioned by the external debt and consequently the need of capital inflows. Politically it witnessed the arrival of financial technocrats who took the leadership of the government since 1982. We must recall that Mexico had been governed since 1929 by one-party system (PRI, which lost in the 2000 election for first time). The struggle between old nationalists and technocrats reached its maximum momentum in the 1988 elections when nationalists in alliance with leftist groups challenged the neoliberal policies adopted by the Mexican government since 1982. This election was marked by a huge electoral fraud made by the government in support of the old ruling party against the center-left alliance. So many consequences derived from this political fact. One of them was the formulation of a new political stance toward the US by the new government, looking to end years of animosity and establishing the US market as the driving force of the Mexican economy. Early negotiations started in 1989 and despite hot debates in the US and Mexico as well, the ruling political elites in the countries in North America decided to carry out NAFTA as the center piece of economic change in the region.

It is important to remember that the US economy had lost strength in the 80's and in the early 90's it suffered a recession. Moreover, US had big trade deficits with Asia and a very competitive world had emerged from the collapse of the communist system. Likely it was the period of time of talking about the declining of US, the rising power of Japan and Asia tigers, old and new ones. From the point of view of US strategic world interests NAFTA would be a new signal to the world. It will put pressure on economic deregulation, trade and financial liberalization worldwide. Mexico was seen also as a potential labor and manufacturing market and as a rich country in oil reserves. In 1989 APEC was formed and negotiations of NAFTA and later its signing was seen with fear from many Asian countries. I do believe that in the US new strategic world framework NAFTA occupied an outstanding role.

NAFTA, 1994-2000

The process of Mexico's economic integration to the United States through the North American Free Trade Agreement (NAFTA) is and will continue to be the crucial and determining aspect of Mexico's development but it is also of special importance to other regions such as Latin America. In this sense, NAFTA's importance grows if we take into consideration that it is probably the model that the United States will favor in the implementation of the Free Trade Agreement for the Americas (FTAA).

From the regional private sector's point of view, the reasons to join NAFTA were different. Large Mexican companies saw in the U.S. market a great opportunity to leave their domestic problems behind. For U.S. companies, in addition to the possibility of a greater market for their exports, through investments in Mexico they would be able to reduce their production costs and recover their competitiveness which had been eroded by Asian imports. The goal was mainly to form a financial, commercial and manufacturing alliance in which, given the enormous economic and political asymmetries, the United States would set the working guidelines. The key factor then was the attitude of the United States to accept a free-trade agreement with Mexico, given that with Canada it had already signed one, years before.[2]

In the 1990s, especially from 1992 coincidentally with the arrival in power of President Clinton, the United States enjoyed an economic recovery and huge expansion, which has been considered one of the longest growth cycles in the U.S. economic history. We assume that NAFTA and the Mexican market have performed a leading role in this process. The Mexican economy, on the other hand, presented two faces during these same years, the first marked by a great financial crisis by the end of 1994 that caused the economic growth rate to collapse vertiginously, followed

[2] Korea and Taiwan were prospects, before Mexico, of a free-trade agreement with the United States, but were both rejected. See Stuart K. Tucker and Mariko F. Chambers. "U.S. Trade Policies Toward Developing Economies. ", in Ippei Yamazawa and Akira Hirata. Trade Policies Toward Developing Countries. Tokyo, Institute of Developing Economies, 1990.

by a recovery cycle starting in 1996. In the same way as in the expansion period, the United State's economic crisis initiated in 2001 must pressure and force adjustments to the Mexican economy, highly dependant of the US economic cycle. This can be seen in the decline of the region's economic growth for the year 2001.

In order to understand Mexico's economic situation during these years it is necessary to analyze the the great changes that the economy of the United States has undergone. This restructuring of the United States can be characterized in several points. First, a resurgence of its financial power. Second, a transformation towards the economic sectors in which services maintain the leadership and finally, a reconversion of its manufacturing industry with great productive transfers to outside markets in which the Mexican economy is playing a key role. Thus the United States' economy is being directed towards what has been called "a virtual economy", based in the command and the hegemony of the new computer science revolution sofisticated services.[3] All these changes can be expressed as the confluence of differentiated but complementary necessities. Mexico requires foreign investments to develop its manufacturing and exporting industries. Therefore Mexico started opening its economy to modernize it and increase the competitive capacity of national enterprises, to create a climate such that would enhance the internationalization of its industries.

Even before the beginning of NAFTA in 1994, Mexico's economy had a strong association and integration to the economy of the United States. Since the start of NAFTA, Mexico accelerated this tendency, and so today the Mexican economy is a complex part of the gears that rotate the motors of the American economy. The tendencies and numbers that come forward when one wants to analyze and measure the impact of this integration, after almost two decades of opening and six years of operation of NAFTA, indicate the validity of the previous statement.

[3] See Richard Rosecrance. The Rise of the Virtual State. Wealth and Power in the Coming Century. New York, BASIC Books, 1999. pp 10, 11, 141 and 555. For this author, the modern world is witness of three great transformations that correspond to the transition of the territorial State to the commercial State, and finally to arrive to the virtual State.

TRADE

Trade in this region skyrocketed. Total trade between Mexico and U.S. in 2000 was $275 billion, more than three times the 1993 pre-NAFTA levels. Another consequence has been that Mexico's foreign trade has concentrated strongly in the United States' market. For example, in terms of exports, the United States' market represented 68 percent and 88 percent of the total Mexican exports in 1990 and 1999 respectively. On the same period, other markets of the world like Europe, Asia, and Latin America, with which Mexico maintains trade relations, reduced their imports from Mexico.

The North American treaty helped to strengthen certain Mexican exporting sectors directed towards the American market, such as the electronic, automotive and textile sectors, which represented the greater increases in the national exports.[4] With this level of integration of Mexico's foreign trade, in a few years the dependency to the United States' market could go up to 90 percent, which could even lead us to rethink our term of "*foreign trade*" for Mexico. In addition to this, more than half, 56% of the bilateral trade between Mexico and the United States is intra-industry or intra-firm type.[5] For that reason the Mexican Globalization is, in fact, exclusive to a closer relation with the United States' economy. Mexico has become one of its main commercial partners on worldwide as it can be appreciated in the corresponding graphs. The commercial dependency with the United States is today more intense than it was six or ten years ago. The paradox for the Mexican economy is that it is even more to the U.S. economy than that of the economy of the State of California or Texas, which are two of the most developed and which have a greater global commercial profile than Mexico.[6]

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[4] See Enrique Dussel. "El Tratado de Libre Comercio de Norteamérica y el desempeño de la economía en México." Naciones Unidas, CEPAL, 2000. The United States was the destiny market of 96 percent of all Mexican electronic exports and 94 percent of all exports of the automobile industry. The integration of these two sectors in this bilateral relation is so intense that it seems as if they were part of one same country.

[5] U.S. Department of Commerce News. June 26, 2001. From the total imports of Mexico from the United States 66 percent is of intra-industry origin, due to the large participation of Mexican maquiladoras in the border region.

[6] Mexico and Canada are now very highly dependent of U.S. trade. It is difficult to find, still in these days of regional commercial blocks, a country so dependent of a single market as Mexico is. More than bound to the evolution of the worldwide globalization processes, Mexico is united to the destiny of the economy of the United States. 90 percent of the total trade of these countries is with the U.S. economy.

The commerce that today takes place between both countries is referred to as intra-industry, which is the interchange of goods that correspond to the same economic sector. Machinery and transport equipment are the goods that have grown more in the bilateral trade, followed by manufactures and fuels. The total Mexican exports to the U.S. have grown from $60 billion in 1994 to more than the double in 2001, reaching its highest point in October 2000 $143 billion. It should be mentioned that even though 2001 was a year of recession and the pace of Mexican-U.S. trade growth slowed, it remained in very high levels. The imports have followed a growth similar but leaving favorable revenue for Mexico of $10 to $12 billion in the last five years.

Temporary imports of components that participate in the manufacturing industries' exports are a very important topic of commerce. Unfortunately it has had very little analysis when looking at balances of trade and which is frequently left a side - in the eagerness to magnify the gross balance of the Mexican exports - since the start of NAFTA. In 1999 these imports reached a value of $78 billion that represented 55 percent of the total value of imports. In fact, more than half of Mexican trade is based on components or parts trade for a practically integrated external production whose main benefits are spilled mainly in the United States and not in Mexico.[7] If maquiladora trade is not accounted for, the total Mexico-U.S. trade falls from $275 billion to less than $135 billion.

MAQUILADORAS

Fifty large companies, most of them maquiladoras and multinational corporations, make 50 percent of the Mexican exports and are the ones who push towards the development-through-exports of the country. As a consequence, the economic power has concentrated leaving aside most small and medium size businesses that have to confront high financial costs in order to improve their technological capacity. Thus, the labor-intensive sectors of the national economy[8] - that were the foundation of the development in the East Asian economies for a long period of

[7] There are no actual currency transfers for the invoicing of these imports. The important element of this type of measurements is that they emphasize the net value of Mexican exports, bringing into light the existing weaknesses of the manufacturing model. Thus, true growth is no longer seen so accelerated and the divorce between the great numbers and the economic reality of the country is explained. For additional information see Héctor Vázquez Tercer. "Medición de la balanza comercial de México." El Financiero. May 22, 2000.
[8] Agriculture, light industries, and small and medium size companies.

time and that would have also been the base of Mexico's fast economic growth – haven't been yet incorporated to the benefits of NAFTA.[9] Electronics, autos, and the fast growing maquiladoras are all examples of leading export sectors in which linkages to and spin-off effects for the domestic economy are minimal. They keep a high productivity level, but contrary to what would be expected, they have a very weak influence as job-builders.[10]

The Maquiladora industry has been one of the sectors with greater economic growth. From being around 1500 plants in 1990, by 2001 they had doubled their number to more than 3700 assembly plants nationwide, a growth of 100 percent in the years of the opening of the economy and the beginning of NAFTA. A tendency that has changed with NAFTA has been the location of these assembly plants. At first they were primarily on the northern frontier region but today they are scattered throughout the whole territory, including Maya zones in Yucatan, in the southeastern region of the country. The number of workers in this industry has also grown, passing from being 842 thousand in March of 1997 to 1 million 220 thousand workers by 2000.

In addition and very important, the maquiladora became one of the most important sectors in terms of Mexican exports. In 1989 its exports represented only 10 percent of the total but for 1996 they had grew enough to represent 40 percent. Electrical and electronic materials and accessories, transport equipment and accessories, clothing and textile products, and other manufacturing industries constitute 83 percent of the total maquiladoras' exports.[11]

The success of the Maquiladora industry is diminished by the limited spill over of their success into the national economy. Maquiladora industries export very large amounts of goods, but they

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[9] See, "Mexico Transforming ", Pacific Council on International Policy, 2000, p.12. By the end of 1992 it was known that 250 companies generated 60 percent of all Mexican exports. Most of these companies were powerful national and transnational companies. For more information see the data presented by the National Association of Importers and Exporter of the Mexican Republic and the National Council of Foreign Trade, in La Jornada, November 29, 1992. 312 foreign and national companies concentrated 51.86 percent of Mexico's exports. (78 foreign companies were responsible of almost 20 percent). 3,130 maquiladora (most of them of foreign origin) exported 41.49 percent of the total national exports. These are the real winners of NAFTA (data of 1998). David Zuñiga. "Exportadoras y maquila generan sólo 5.6% del empleo en México." La Jornada. January 2, 2001.

[10] See Enrique Dussel, *op.cit.* p. 47. From the employment generated between 1993 and 1998 in Mexico, 90.36 percent was in charge of enterprises lightly related to the foreign trade. See also Won-Ho Kim, "The effects of NAFTA on Mexico's Economy and Politics." Working Paper, 00-05, June 30, 2000. p. 14. Kim states that most of the enterprises where trying to raise their productivity by reducing their workforce.

[11] Excélsior, April 29, 1999.

are also major importers of components for such goods, representing 28 percent of the total national imports. And even though they are great contributors to the national foreign trade, they have a limited incidence on employment, production, consumption, and the general well being of the working population, who receive lower salaries than those of the manufacturing industries of the country.

The pattern of change in Maquiladora industry is remarkable with NAFTA. The coincidence of the economic crisis of 1995 caused a considerable increase of the textile, electronics and transportation equipment establishments. The leader sector in terms of growth in its workers population was the textile sector. This leadership reveals that the cheap workforce has played a very important role in the redistribution of textile industry in the country. After the devaluation of 1995 the ratio of Mexican to U.S. wages dropped from 1/7 to 1/11 overall and approximately 1/16 in manufacturing (maquiladora wage is about half the manufacturing wage). The six-year term in which NAFTA began has been called the "*sexenio maquilador*" for the great development that this sector has had. By the year 2000 it represented 45 percent of the total national exports.[12]

FOREIGN DIRECT INVESTMENT

Regarding the foreign direct investment in Mexico, in the first six years of NAFTA's operation, Mexico has received a total of $70 billion in foreign investment[13] U.S. investment intensified its outstanding role in Mexico's foreign investment after NAFTA, in 1994 it represented 46 percent of the total direct foreign investment in Mexico and by 1998 U.S. capital represented the 70 percent. This increase of 24 percent in only four years, indicates the enormous Mexican potential for North American multinational companies. The main objectives of this foreign investment are in the automotive, electronic, and clothing sectors. A continued flow of investments to these preferred sectors is expected for the year 2001.[14]

[12] El Norte, May 29, 2000. The six-year term refers to the period from 1994-2000.
[13] One of the positive aspects of NAFTA was that direct foreign investment was growing faster than short-term portfolio investment, although the addiction of the national economy to such capitals is not easy to surpass. Recent information of the Bank of Mexico indicates that since 1999 the portfolio investment has retaken the lead with a 70 percent margin above the foreign direct investments. You can find this information at El Financiero, May 11, 2000 and June 5, 2000.
[14] Nevertheless, Canada has been an even more important receiver of foreign investments, because during this period it received nearly $40 billion of the United States, as well as the flow of shareholder's participation to that country

As the United States example shows, the sectors to where these foreign investments go have had very significant changes in the last decade. Foreign investment at the beginning of the decade was predominant in the services sector, whereas in the commercial sector there was practically no foreign investment. The industrial sector has been the leader, since 1993, in foreign investment attraction. Some information on Asian investment in Mexico is that during the 1994-1999 period, Japanese FDI in Mexico reached $3.5 billion, considering the capital provided by U.S. and Canadian subsidiaries of Japanese companies. Korean investment in Mexico since 1988 is estimated at $1.200 billion, concentrated mainly in electronics, textile, footwear, telecommunications, petrochemical, and auto-parts.

Not only for North American companies, but also for any other foreign company, NAFTA opened an excellent opportunity to invest in Mexico, for several reasons. The treaty operates like an insurance policy against the uncertainty that an economy and a country in the conditions of Mexico have. With NAFTA they can also assume a privileged position inside Mexico to export to the U.S. market, a very important strategy, because they can prevent losing segments of such market gained in the past, or loose the opportunity of reaching those which will be generated by the American economy.

Innumerable are the cases of foreign companies that settled in Mexico after NAFTA, and who invited their subsidiaries or part and components suppliers to do the same thing. Among a few of these companies are those related with the transport industry. Mexico's *Volkswagen* supported the installation of 20 new German suppliers in Puebla. *Nissan* in Aguascalientes also helped to the establishing of 12 Japanese suppliers to increase the efficiency of its production.[15] On the other hand, Japanese companies in the United States have been increasingly buying more parts from Mexico and vice-versa, integrating both sides of the border. The director of JETRO reaches the conclusion that the formation of an industry of materials and parts within Mexico, a support

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has exceeded the one of Mexico by 50 percent. It is said that NAFTA caused a more flexible attitude of Canada with respect to the foreign investment in previously protected sectors like natural resources, telecommunications, and financial services.

[15] Teppei Kuroda of JETRO states that between 20 and 30 Japanese companies have settled in Mexico during the past 5 years in response to NAFTA. See Olaf Carrera, "Nafta at Five". Business Mexico. February 1, 1999.

industry in other words, is one of the most important tasks for the success and development of Mexico's foreign trade.[16]

The growth of foreign direct investment has contributed much to the process of development, but not without discriminatory measures. In states like Aguascalientes, Chihuahua, Jalisco, Querétaro, Guanajuato, among others, foreign investment has contributed to the rise of employment rates. The greatest attraction poles of new industrial plants, mainly in the clothing industry, have been poor states like Yucatan, Oaxaca, Tlaxcala, and Puebla. The inherent adjustment to this process has been substantial, as shown by the imposing economic growth experienced by regions that had never been significantly successful in terms of their manufactures, whereas those that traditionally had been, have experienced an inevitable contraction. On the other hand, the great disparities in the economic performance around the country have created an exceptionally fertile land for political controversy and partisan activism.[17]

Thanks to NAFTA, Mexico has become one of the most attractive investment and manufacturing sites in the world. Hundreds of American, Canadian, European, and Asian companies have settled in Mexico to manufacture goods that soon are exported to other markets, from automobiles and auto-parts to an ample electronic products range, metal-mechanical, chemical, paper, steel, etc. For these foreign investors, the factor of preferential access that Mexico has to the market of the United States is very attractive to transfer production to our country, having the vision of exporting it preferably to the North American market. In addition they count on smaller costs of transportation, insurance, etc. The low cost of the Mexican labor is maybe one of the most important factors to consider; otherwise they would go to settle directly to the United States or Canada. The package presented by Mexico after NAFTA's ratification is then very attractive for foreign investors of other commercial blocks.

What occurs now between Mexico and the United States can be characterized in what would be the new world-wide productive tendencies. Professor Richard Rosecrance indicates that the world

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[16] Teppei Kuroda, "Relaciones Económicas Aguascalientes, México y Japón. Condición actual y perspectivas futuras," Aguascalientes, Ags., May 13, 1999.
[17] Luis Rubio. "El TLC: Sin lágrimas ni risas." Nexos. September 1, 1999.

is now divided in what he calls "*head nations*" and "*body nations*", in regard to their economic structures. The United States would be a typical economy that corresponds to a leader nation (or *head nation*) given that most of its inland activities correspond with the services sector, whereas their manufacturing activities are being transferred to the outside. On the other hand, Mexico can be classified as a *body nation*, for it is receiving a large amount of manufacturing industries from the United States, especially in the field of the automotive industry.[18]

The main objectives of U.S. enterprises establishing in Mexico can be classified in three large groups: In the first one are those who use the Mexican low-cost production of parts and components to provide their plants in North America. The second group is composed of those dedicated to provide some resources needed by the Mexican market, especially in those sectors like financial services, telecommunications, agricultural industries, and commerce and transport services. Last but not least important, in the third sector we may find industries related to those sectors of recent liberalization like natural gas, petrochemical, railroads, airports, harbors, and electricity.[19]

When the possibility of carrying forward the NAFTA negotiations was barely discussed Asian exporters reflected the greatest preoccupation for the impact that such instrument could have upon them. It was spoken then of the trade diversion that NAFTA could provoke. Truth is that not only were the Mexican exports, but also China's irruption in the U.S. market, those responsible for the destabilization of their exports to the North American region. Furthermore, not only commerce was diverted but investment too, especially by American enterprises that moved some of their productive plants to Mexico, like *IBM* for example, which brought to Guadalajara their component factory that was originally located in Singapore. In this Mexican State (Jalisco), there are 70 businesses of the electronic branch; they concentrate 6.5 percent of this sector's exports in the national level. Besides *IBM*, we can find businesses like *Kodak*, *Motorola*, *Lucent*, *Siemens*, and *Intel*. The same can be said about clothes industries like *Gap* or

[18] Richard Rosecrance, ***op.cit.*** p. 119. *General Motors* for example, operates more than 50 maquiladoras. Overall, the auto sector (including 500 auto-parts companies) employed over 611,000 workers in 2000 (a 50 percent increase since 1995) with annual exports estimated at $33 billion. Mexico's export-led "miracle" is to a considerable degree explained by strategies of globalization created in Detroit.
[19] See Alan M. Field. "Canada and Mexico." Plants, sites and Parks. New York, International Resource Guide 1999-2000 Edition, 1999. pp. 5-9.

Liz Claiborne, which started buying greater quantities of their Mexican providers instead of from their Asian providers. In Mexico, the labor cost is $1.6 per hour; in Taiwan it is $6.11 per hour; and in China, $0.40 per hour.[20]

LEADING SECTORS

The automobile industry has been the one with the greatest development since the start of NAFTA. It is an integrated industry throughout all of North America. The development of the automotive world is changing the appearance of the manufacturing industry of Mexico and specially of the regions that even before NAFTA had working plants, and that are now experiencing an acceleration in incoming investments and increased production. For example, *NISSAN* with components and parts for their vehicles Mexico exports one million units per year, most of them to the United States, providing jobs for more than 360 thousand Mexican workers. The United States is the target of more than 75 percent of Mexico's automobile exports. Between 1994-2000 foreign direct investment in the auto sector was $8.45 billion or almost 20 percent of total investment in the manufacturing sector.

National auto-parts producers have been obliged to modernize their means of production in order to integrate themselves to the new productive chains. However, like in many other economic sectors, the national content of the supplies used by these companies is below 22 percent. By 2004 the regional content required to obtain NAFTA's benefits in this sector will be of 62.5 percent, forcing other foreign enterprises to maintain dynamic investments in the region. If this growth rate is maintained, by 2010 the number of vehicles produced would be 4.29 million.[21]

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[20] These changes are probably influenced also by factors related with the new international labor division. Singapore and other Asian economies are strongly moving towards a fast development of their sophisticated service and production sectors. Richard Rosecrance speaks of these economies as soon to be graduated as "virtual" economies. See also J. Ernesto López Córdova, *op.cit*. López Córdova states that Mexico's growth is probably centered in industries whose international importance is diminishing while the Asian economies are transforming their strategic industries and preparing for the new international economic challenges and competition.

[21] It is a common practice of the automobile sector of the United States to make their providers maintain price reductions year after year. This has lead to the acceleration of the "outsourcing" policy, which consists on contracting with foreign providers who can make these price reductions. This practice was responsible for the automobile price reduction of 1998, first price reduction since the 1929 crisis. It is probable that these types of practices are behind the development of the auto-parts industry in Mexico. Lester C. Thurow. Building Wealth. The New Rules For Individuals, Companies, and Nations in a Knowledge-based Economy. New York, Harper Collins, 1999. p. 77.

Another of the most striking results is the dramatic growth of textile, apparel and footwear imports from Mexico in the United States and Canada after NAFTA is formed. Mexico became a larger supplier of textiles than all of ASEAN in 1995 and 1996. In this industry average wages in Mexico, including benefits, are about one-tenth of U.S. wages. It should be pointed out that textile trade still has a beneficial effect on the U.S. economy when compared with sourcing from Asia. . This sourcing shift back to North America has been good news for U.S. textile companies. The reason is that these Mexican plants pull in a host of goods and services from the United States including textile machinery, mill supplies, fashion design, management services, etc. Moreover, 80 percent of finished Mexican textile products are assembled with fabric made in the United States. Comparable goods purchased from Asia contain far less collateral benefit for U.S. firms.

Tougher competition from Asia is the main driver pushing U.S. companies south. And the environment will get even tougher in coming years, with the elimination by 2005 of the apparel import quota system that has protected U.S. manufacturers, and the expansion of the World Trade Organization to include China. Executives of U.S. companies say their choices are to move to Mexico or turn out the lights. U.S. firms are also coping with the news that several Asian companies have announced plans of their own to open fabric factories in Mexico. Asian investment is coming in quite rapidly to Mexico. Companies from China, Taiwan, Singapore, and Hong Kong are all wheeling and dealing in the various state governments of Mexico, negotiating for plant sites.[22]

Something similar has happened in other dynamic sectors. In the case of the electronic industry, which with the settlement of big enterprises like *IBM*, has attracted the presence of many foreign providers. But even though the enterprises in this sector have raised their production, the national contribution to the aggregated value of in this sector is 16 percent, lower than in the automobile sector. During NAFTA's first six years, U.S.-Mexico trade in electronics reached almost $53 billion, an increase close to 220 percent since 1993. In 1999, Mexico became the main trading

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[22] Chris Kraul. "Mexico's Growing Textile Industry Challenges Asian Trade: As NAFTA incentives and low wages lure U.S. domestic plants across the border, manufacturers find they're better able to compete with Far East nations." The Los Angeles Times. March 19, 2000.

partner of the U.S. in electronics, and the largest export market for U.S. electronics. Mexico was also the number two source of U.S. electronics imports second only to Japan.

The United States has 68.3 percent of total electronic enterprises in Mexico and Asian companies, 10.3 percent. U.S. investment in this sector reached 74.4 percent of total from 1994 to 2000, meanwhile Asian investment was of more than 8.5 percent. In 1993, Mexican exports to the U.S. in this sector faced an average import-tariff of 1.6 percent. In 1999, this duty was close to zero. By comparison, non-NAFTA countries exporting electronics to Mexico and the United States faced import duties of 15.4 percent and 1.64 percent, respectively. This explains one of the key interest points for investment of Asian companies in Mexico. It is said that Mexico is on its way to supplanting China and other Asian countries as the main manufacturing center for electronics products sold in the United States.[23]

EMPLOYMENT AND WAGES

Changes in the labor market, in Mexico as in the United States, must be analyzed in detail when reviewing the effects of NAFTA, since it is an important factor of impulse and preoccupation of the economies of both countries. Besides, contrary to what has happened in other sectors, it has been left to the law of the market's supply and demand between these two countries, leaving the geographic frontier as a regulatory factor.[24] The Mexican labor market has traditionally been an important element for the United States' economy, especially in those regions and economic sectors that have benefited from the constant flow of illegal immigrants. NAFTA has not been a sufficient restriction to stop this flow of workers drawn by an existent demand.

The manufacturing wage in the United States is $18.74 per hour, whereas in the Mexican maquiladoras of high technology the workers receive $1.51 per hour. The disparity between the wages of both countries, instead of decreasing has become more unequal. The fall of the real wage in the United States has been a constant in the last decade, especially for 80 percent of the workers of the lowest layers of the labor market. These cyclical tendencies were relatively

[23] Naftaworks. "NAFTA Supports a Booming Trade in Electronics." May 22, 2001. http://www.naftaworks.com
[24] We must remember that NAFTA includes parallel treaties in labor and ecology, which haven't function as such in reality.

interrupted in the years of 1997 and 1998 in which nevertheless, the wage gains were unequally distributed. These grew very quickly in the superior layers of the labor force, less in the intermediate and lower layers. The savage streamlining of the corporations and the inner restructuring, and therefore the enormous challenge to be competitive again, fell on shoulders of the American labor force. Two thirds of the American labor force received cuts in their real wages of 20 percent.[25] In the 1990's the workers in the United States experienced stagnation followed by two years of anemic growth of their wages, in spite of the great expansion of the American economy. Many economists like William Kline think that the decrease of the wage rates in the United States is due to the global economic integration and NAFTA in particular.[26] On the other hand, in Mexico the real wage in 1997 had dropped a 60 percent from its value in 1994 as consequence of the peso crisis.

The United States has a great labor force reserve ready to be incorporated in the manufacturing, the mining and the construction sectors. This manpower is in the cheap services sector who is eager to climb to better-remunerated jobs. Therefore the American industry can maintain lower costs and prices, resting on cheap manual labor. Therefore, and in spite of formally maintaining low unemployment rates, there are no pressures to increase the wages. Here is where the reserve of Mexican labor force takes an important role, as well as that the Labor Department does not register in its unemployed statistics, but that in fact is just hoping to find job. Lester Thurow calls this reserve "a hidden army of unemployed" that helps keep the wages and the prices in their lowest rates in the United States.[27]

The workers who go to the maquiladoras or assembly plants, which it is the dynamic sector of the Mexican economy, lead the labor pattern in Mexico. They are also directed towards the most dynamic industries of NAFTA like the automobile, electronics, and textile sectors, as well as to the regions that have been favored by the new model of economic relations that this new geography of unequal development imposes upon the country. NAFTA has helped raise the

[25] Lester Thurow, ***op.cit.*** pp. 42 and 53. "It's a spiral to drive our wages down, not their wages up," said UAW President Steve Yokich, quoted by Harry Stoffer in "Study: NAFTA helps U.S., Mexico." Automotive News. February 12, 2001.
[26] It is considered to be responsible for the 39 percent growth of the disparity in the American wages. See "Nafta at Five…" ***op.cit.*** p. 10.
[27] Lester Thurow, ***op.cit.*** p. 78.

inequality of wages in Mexico between qualified workers employed by foreign companies and the rest of the workforce that remains as a great labor reserve.

IMPACT OF US RECESSION ON MEXICAN ECONOMY

It has been said that when the U.S. sneezes, Mexico catches cold. And the recent economic downturn has not been the exception. Mexico is more than ever tied to its powerful northern neighbor, the United States and the country has suffered the effects of the U.S. recession in almost all its variables: trade, manufacturing production, employment, and growth. However, the intensity of their downturn depends on how close they are related to domestic or external demand. Evidence indicates that the impact of low growth in the U.S. economy, which first affected Mexico’s exporting sector, has now extended to the remaining activities such as construction and mining.

The maquiladora industry has been the most affected part of the Mexican Economy and this is explained mainly because it is U.S.-demand driven since most of its production is destined for the U.S. market. This industry, once a dynamic source of employment creation, has suffered a severe setback. Even though maquiladora employment growth has managed to remain positive, this year’s levels have come down considerably if compared with last year figures. According to INEGI data, between December 2000 and December 2001, the number of employees dropped by 226 thousand, meanwhile the number of companies lowered from 3 thousand 703 to 3 thousand 450 in the same period. Among the total number of employees laid off, workers were the most affected representing 86%. And among workers, women are the most affected by recession since they have lost 110,929 posts, meanwhile men have only lost 84,846.

The number of establishments also showed a decrease. By November 2001 the quantity was similar to the one in March 2000. But if one takes a closer look to data the results by states are mixed. There are some states that show positive numbers with new maquiladora establishments like Nuevo León, Tamaulipas and Jalisco. An important remark is that these states, Nuevo León and Jalisco, have been traditional centers of national industry that have infrastructure and high quality labor.

The border region, which used to be a powerful economic engine for Mexico, has begun to sputter. It has been the most affected region since recession in the United States has forced assembly lines that manufacture everything, from televisions and auto-parts to blue jeans and toys, to cut production and reduce their work forces significantly for the first time in two decades. Some 200,000 workers at these export-oriented plants have lost their jobs.

Moreover, even after a recovery begins in the broader North American economy, this region may never be the same, many analysts argue, because the 2,000 – mile border is pricing itself out of the low-skill manufacturing market. After more than a decade of expansion, around 70 maquiladoras have shut down.

And while Mexican officials would like to encourage the development of low-wage factories in the south of the country, the loss of jobs along the border is expected to increase emigration to the United States instead. Permanent, not just fleeting, changes are being wrought because low-skilled workers on Mexico's northern border are no longer as cheap as in other parts of Latin America and some places in Asia. In the last several years, the competition for workers had forced employers to increase wages at a faster pace than inflation, lifting real incomes. But those gains are now haunting some of the industries that first located there. Juan Pablo Fuentes, an economist at the consulting firm DRI-WEFA in Philadelphia said unskilled jobs are now cheaper in other regions of the world, said. And even after the U.S. economy improves, and the demand picks up, it will be cheaper for manufacturers to produce in other countries. [28]

Nevertheless there are some analysts who think the U.S. economic slowdown is motivating some U.S. companies to increase production in Mexico in an effort to cut costs and thus keep prices down or even push them lower to stimulate demand. This strategy help companies preserve their existing market share and can potentially rescue profit margins from drastic reductions. Indeed, new companies have opened this year in Juárez and elsewhere in Mexico as part of this trend. [29]

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[28] Ginger Thompson. "Fallout of U.S. Recession Drifts South into Mexico". The New York Times. E.U.A. December 26, 2001

[29] Two examples of companies that opened new maquiladora facilities in [Juárez in 2001 are Royal Phillips Electronics of the Netherlands and Tatung Co. Taiwan's No. 1 manufacturer of electronics, home appliances and industrial equipment. Among the companies with new investments in Mexico this year are Nokia, Sanyo Electric

The director of the Maquiladora Industry Service at Ciemex-WEFA said that high-technology plants would probably remain on the border because they are much more productive, their owners have made significant investments to build modern facilities and they have gone out of their way to train Mexican engineers, computer technicians and machine operators. According to Christman, “The only companies that are operating successfully on the border are high-tech plants, the low-skilled plants are either going to move inland or leave Mexico.” [30]

Being that for the most part units are exported to the U.S. automobile sales abroad have been affected by the weakened demand in that country and by the time lost in crossing the border.[31] Exports of automotive sector kept without a change, rising only 0.2%. The low demand for automobiles in the U.S. forced the Mexican automobile industry to re-orient to the domestic market. Consumers in Mexico continued to purchase vehicles as a response to financing by the banking sector and the manufacturers.

In what corresponds to investment in this industry, it seems that optimism remains. Even though Asian financial indexes showed severe downturns at the beginning of 2001, this region automotive companies (Susuki, Toyota, Hyundai, Honda) did not stop their business plans in Mexico and they only made adjustments. [32]

The apparel industry ceased exporting US$2 billion and lost 100 thousand jobs. The opening of the economy produced important changes in the production structure of this sector. In 2000 Textile and apparel industry exported 12,52 billion (in 1993 it was only 2.8billion). FDI in 2001 dropped around a 50% in the first half, compared to historic amounts. For 2001 it is expected that the contraction will be 9.1% and for 2002 it will decrease 5.2% But the crisis in this sector seems not to be an isolated case. There have been news of closings all over the region, from the U.S. to

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Co., IEC Electronic Corp, Escalade. Lucinda Vargas. “NAFTA, the U.S. Economy and Maquiladoras”. El Paso Business Frontier Issue 1. Federal Reserve Bank of Dallas E.U.A. 2001

[30] Ginger Thompson. ***Op.cit***.

[31] “Perspectivas Sectoriales: Manufactura y construcción. Informe Económico. BBVA-Bancomer. México. November-December 2001. p.64-65

[32] Alejandro Ayala. “El mercado automotriz bajo control” Abcebra. México D.F. December 3 2002

countries such as Costa Rica, Honduras and Guatemala. It seems that China has been an unbeatable competitor in attracting investments and maquiladora industry.

The fall of around 7% in electronic and telecommunication exports is explained by the international fall of demand, especially from the U.S. This affected not only Mexico, but also many Asian countries. There is a reason for worry in the Mexican industry and that is that low-value added products manufacturers, have moved to China. It is expected that production will contract 12.5% in 2001.

Despite the adverse current situation, some analysts say that these industries have great potential. The capacity to produce with high levels of competitiveness in the international markets has been acquired thanks to an intense flow of investment. "In effect, this investment has not only allowed improving what is produced in this sector through leading edge technology. Today, this industry which at first was basically in-bond (maquiladora) has also continually been integrating into the Mexican economy." [33]

One of the greatest challenges Mexico faces is to stimulate its productive capacity and recover the 382,000 formal employments lost last year. Facing the lack of expectations and opportunities created by the government and society to satisfy the annual employment demand of one million 200 jobs, 45% of young people in Mexico find its only alternative in informal economy.[34]

In 2001, Mexico lost 3% of the formal workforce. According to the Secretary of Labor, this is the worst employment slide since 1995. The drastic change in employment can be explained first and foremost by the sharp halt in the United States economy that has affected the manufacturing sector in Mexico so much that it still isn't showing any clear signs of reactivation. Perhaps one of the few positive points during this recession has been that the closeness to the U.S. and a relatively good management of some economic variable such as reserves and government spending, has allowed Mexico to remain isolated from the financial turbulence affecting the rest of Latin America.

[33] "Perspectivas Sectoriales: Manufactura y construcción. Informe Económico. BBVA-Bancomer. México. November-December 2001. pp.65

[34] Antonio Sánchez. "Absorbe economía informal a jóvenes". Reforma. México, D.F. January 27 2002.

In what corresponds to FDI, Mexico was the main receiving country of in Latin America during 2001 with more than 25 billion dollars according to the UNCTAD. But the UNCTAD did not precise that almost half of last year's FDI was concentrated in the sale of Banamex to American Citigroup, who paid 12.7 billion dollars in the transaction.[35] Even though Mexico was the main receptor of FDI, during the first half of 2001 the FDI in the manufacturing industry was 16.4% lower if compared to the average half years seen in the last seven years. For the whole year of 2001 it was estimated that the FDI realized in this sector would be 20% lower.[36] An important change that could benefit Mexico in the next upturn is that it has been following a stricter financial managing and has been getting positive country-risk notes which could somewhat attract more investment.

IMPACT OF US RECESSION ON ASIAN ECONOMIES

The South East Asian economies have also suffered the effects of the U.S. recession because even though the dependency on the American market is not the same as Mexico's, it still represents an important destination for many exports, especially electronic ones. Moreover, Asian economies are experiencing difficulties not only due to the U.S. but also to Japan's persistent downturn.

As it is known, the nature of this recession is different from the 1997-1998 recession and there is little risk of a financial crisis similar to 1997-98 because today most Asian economies have large foreign –exchange reserves, smaller short-term foreign debts and current-account surpluses. The only exception here could be Indonesia. But this time, some analysts say, the risk is that some economies could mimic Japan with a long bout of sluggish growth. [37] There are many similar indicators: deflation, excess capacity, high corporate debt, fragile banks, a resistance to structural change and a jump in government borrowing. Of all economies it is said that Taiwan is probably most at risk to the Japanese disease.

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[35] "México, principal receptor de inversión extranjera directa de América Latina en 2001". La Jornada. México, D.F. January 24 2002
[36] "Perspectivas Sectoriales: Manufactura y construcción. Informe Económico. BBVA-Bancomer. México. November-December 2001.
[37] "Another bout of flu: East Asian economies". The Economist. London. November 24 2001.

In the past year, the economies that were the most dependent on high-tech electronic and telecommunications products for exports suffered the biggest slump in demand. Singapore and Taiwan were the hardest-hit. Hong Kong and South Korea managed better the worldwide recession. Hong Kong partly because it has benefited from the announcement of China's accession to WTO and because its exports are more traditional consumer products such as toys, clothing, and footwear. On the other hand, South Korea was able to offset some of the weakness in its high-tech electronic exports with stronger overseas sales of automotive and traditional consumer items. China and Vietnam that focus mainly on low-cost, labor-intensive exports suffered less because consumers in major markets had been particularly price-conscious in making purchasing decisions during the global slump. South Korea and China have been amongst the countries least affected by the present economic downturn, also because of the greater importance of domestic demand in their overall expenditures. [38]

South Korea and Taiwan make an interesting comparison. South Korea's GDP has continued to grow but Taiwan's has slumped. This is because South Korea's exports take a smaller share of GDP than Taiwan's and are less concentrated in electronics. But it also reflects South Korea's better policy response to support domestic demand. It has eased fiscal policy by much more than Taiwan has, and allowed its exchange rate to fall more sharply. In trade-weighted terms, Taiwan's currency has appreciated by 15% since April 2000. From this stand, Mexico would be in a situation similar to Taiwan's, with a strong currency against US dollar affecting its competitiveness, a large share of the GDP depending on exports and the difference would be that instead of concentrating in a sector like Taiwan, Mexico is concentrated in one country: the United States.

A variable affecting the Asian region and not so hard and directly Mexico, is Japan's yen depreciation. It hurts particularly China and South Korea because there is intense competition in export markets for an increasing array of products (particularly electronics) made in all three countries. A weaker yen means Japanese exports may start to displace items made elsewhere in Asia. The faltering Japanese economy has aggravated the situation since investments from

[38] Michael Richardson. "Foreign Investors Prefer China to ASEAN". International Herald Tribune. Paris. January 30, 2002.

Japanese multinational corporations, one of the main locomotives of growth in ASEAN, have been on a decline. [39]

Finally, the China factor has affected South East Asian economies and Mexican economy. To maintain their cost competitiveness, overseas manufacturers are increasingly setting up manufacturing facilities in other production bases. For electronics in particular, major multinationals like Motorola, Phillips, Siemens, Ericsson, Sony, Olympus and Toshiba have increasingly relocated more sophisticated processes to low-cost countries such as the Chinese mainland through outsourcing and or direct investment.[40] Since labor costs in China are 6% of what they are in South Korea and Taiwan and only about 3% of Japanese manufacturing wages, more and more manufacturing will shift into China and hurt the economies of Asia's traditional export tigers: Japan, Taiwan, South Korea, Singapore and Malaysia. The same is happening to Mexico. And as Marc Faber points, this underscores the importance of distinguishing between an unexciting Asian economic outlook in the foreseeable future and corporate profitability. Take a Taiwanese or Japanese manufacturer that shifts its production to China. This shift will damage the local economy, factories will be closed and workers will be fired. But the company will be able to boost its profits through lower costs and at the same time gain access to the growing Chinese market. [41]

POST SEPTEMBER 11 U.S.-MEXICAN RELATIONSHIP

The bilateral agenda between Mexico-U.S. suffered significant changes in priorities after the September 11 events.[42] For the US president, congress and public opinion, border security became the most important matter. From the Mexican point of view, and also from the millions of illegal workers at the US, suffered a severe setback since the migration issue was relegated. For almost six months the migration issue was left aside and it was not until two months ago that

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[39] Michael Richardson. *Op. Cit*.

[40] "Labour Cost and Deflation. Gloomy 2001." Bank of East Asia. January 2002

[41] Marc Faber. "Suicide or Contrarian Oportunity?" Forbes. EUA. July 26 2001

[42] We should say that even though more emphasis was placed into the analysis of the Post S-11 attacks effects on Mexico-U.S. agenda, there was a similar impact on Canada, specially at the border issue.

some talks restarted, but no significant steps had been taken yet.[43] As time goes on, other new issues have appeared such as the Farm bill and the water debt disputes.

To have a better comprehension of the impact the terrorist attacks had on the bilateral agenda, one has to consider that immigration is perhaps the most important issue to Mexico. According to the U.S. Census 2000, around 22 million of Mexicans and Mexican Americans live in the United States. Last year the Mexicans living in the United States sent home $9.3 billion in remittances (the so called "remesas") which are the third source of dollars after exports and tourism. A major problem is illegal immigration since there are around 3 to 4 million undocumented Mexicans living in the United States. Thus since the Fox administration took office it has been a demanding preferential visa status to allow more Mexicans to enter the U.S. legally. It is also requesting more guest-worker programs to allow Mexicans to legally find temporary work in the U.S. The government is also urging Washington to grant legal status to at least a part of the undocumented Mexicans living and working in the United States.

As it has been said, after the S-11 events, the focus shifted toward securing the U.S.–Mexico border and restricting immigrant visas. Mexico shares a 2000-mile border with the United States, more than 300 million people cross the border every year, so do 90 million cars, 4.3 million trucks and US$195 billion worth of goods.[44] Hence, addressing security concerns while allowing the uninterrupted flow of trade became a crucial element of the U.S.-Mexico relationship. Even before the attacks, there were already problems and delays in the border in Mexico as well as in Canada. But after S-11 the situation was aggravated, the inspections at border checkpoints, created lengthy delays and slowed down trade as well as the passage of citizens.[45]

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[43] Just one week before September 11, President Vicente Fox visited Washington to hold a meeting with President Bush. While welcoming Fox, president Bush said "This is a recognition that the United States has no more important relationship in the world than the one we have with Mexico." Also, in his speech, Bush hinted that an agreement on immigration would be placed as a top priority of the agenda. Remarks by President George Bush and President Vicente Fox of Mexico at Arrival Ceremony. Available at www.whitehouse.gov/news/releases/2001/09/20010905-2.html

Nevertheless, two weeks later, after the attacks, he stated at his address to the Congress and the Nation, that "America has no truer friend than Great Britain." Which illustrates the shift there was in US priorities.

[44] NAFTA Works. Vol. 7 Issue 4 Economy Ministry of Mexico. April 2002. www.naftaworks.org/publications

[45] For example, a truck which usually had to spend two hours for crossing the Laredo Bridge, spent six hours. César Sánchez, "Refuerzan Fronteras Cierran Filas." El Norte. September 13, 2001. http://www.elnorte.com/nacional/articulo/146508/default.htm In Canada the same problem appeared: "The ambassador Bridge from Windson, Ont. To Detroit handles one-sixth of all traffic between the world's two pre-eminent trading partners, but on Sept. 13 the lineup of southbound trucks stretched for 36 kilometers. The scene was

Once the immediate crisis had passed, the Bush administration worked with its neighbors Mexico and Canada in addressing the new problems. On December the "Smart Border Plan" was signed between the United States and Canada, in an attempt to reconcile post-S-11 security concerns with the need to keep commerce moving freely between the U.S. and Canada, its largest trading partner. Recently, on March 22, 2002 a similar plan was adopted by Mexico.[46]

Nevertheless it seems that the Mexican government is not willing to let security concerns continue to be the prevailing topic in its relationship with Washington. Since the last two months the Mexican government, especially President Fox began to pressure the US by telling that they could not continue cooperating with the border security issue unless there is an agreement on the migrants issue.[47] The minister of Foreign Affairs, Jorge Castañeda also declared "we have to find a way to co-manage our border. This includes security but is not limited to security."[48] In May during a dinner with American businessmen, President Vicente Fox said that progress in relations with the United States had "stalled" and that Washington's failure to deliver concrete results on immigration reform was undermining his credibility at home. He also stated that "There can be no privileged U.S.-Mexico relationship without actual progress on substantive issues…and there will be no substantive progress without comprehensively addressing the issue of migration."[49]

While the Mexican government tries to advance in the migration issue other controversial points have emerged. The first one is over the agricultural subsides and the Farm Bill approved by the

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repeated from coast to coast. Cross-border commerce had all but ground to a halt." Drew Fagan. "It's the year 2025..There is no U.S. border. Has Canada become the 51st state?", The Globe and Mail. March 16, 2002.

[46] The agreement establishes joint surveillance of the U.S.-Mexico border, and seeks to develop plans to improve infrastructure. Much of it focuses on reducing delays and smoothing the flow of commerce with the usage of mechanisms such as X-ray machines to scan the contents of trucks and a pre-certification of about 500 companies in Mexico involved in high-volume exports to the United States. Both countries are also working in the creation of a common list of countries whose citizens must obtain visas before visiting the United States, Mexico or Canada, as well as harmonizing criteria on which visas are given.

[47] And in the U.S. there are also big interests on the matter. As Alfredo Corchado noted "Although Bush and Fox didn't announce any changes in migration policy during their recent summit, inescapable political, demographic and economic realities favor a major overhaul of U.S. immigration policy in the long run. The United States economy is tied to man immigration and the work of 3.5 million Mexicans of questionable status...Mexico has very wisely taken the initiative to awaken Mexican groups in the United States and Latinos in general. The Democrats see this coming and are pushing hard for an accord, so this in turn should push Bush to renew his efforts." Cited in Jonathan Treat, "A new, improved US-Mexican Broder?" Americas Program at IRC. www.americaspolicy.org

[48] Tim Weiner. "U.S. and Mexico to Share Work at the Border." The New York Times. March 6, 2002.

[49] Kevin Sullivan and Mary Jordan. "Fox Laments 'Stalled' Relations Between U.S. Mexico." The Washington Post. May 10,2002.

American Congress.[50] The issue has raised opposition not only from Mexico but also of Canada. The Farm Bill affects the NAFTA agenda and the politics of free trade the U.S. has long been promoting. So Mexico and Canada, agreed a joint declaration to denounce the US.[51] The Mexican Agriculture Minister Javier Usabiaga, announced that Mexico had started talks with Canada to develop a common strategy that helps counterbalance the negative effects of the bill.

The second controversy has emerged around the issue of water.[52] The problem here is that the U.S. has been paying its correspondent amounts but Mexico has a debt of 2 billion cubic meters.[53] The Mexican government stated that it can not pay the debt immediately because of a severe drought in the northern states of the country which has reduced capacity in its reservoirs to dangerously low levels, most of the largest ones are about 20% of normal capacity. According to Mary Kelly, most federal officials in the United States have maintained a low profile with regard to negotiations on the issue. Nevertheless the constant pressure from Texas, widespread media coverage and the lack of perceived progress in the dispute may begin to make that approach difficult to sustain.[54] So perhaps during the next months we will see an arrangement on the matter. What is worth emphasizing here is that the water issue will be an important one during the coming years and if the governments do not deal with it, it will become a recurrent factor of tension in the bilateral agenda.

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[50] In the Mexican reaction we have to consider that since NAFTA entered into force in 1994, agricultural trade between the United States and Mexico has doubled, surpassing US$12 billion in 2001. Today Mexico is the United States' third-largest export market for food and agricultural products. NAFTA has severely damaged Mexican agriculture since the rural sector of the country lacks the competitiveness in quality and price to face American farms with their technology and now their subsidies.

[51] The new law foresees a 51 billion dollars public expenditure within the next six years, raising the subsidies by over 80% This subsidies are going to favor big farmers on electoral states key for legislative elections next November. See " México y Canadá preocupados por la ley de subsidios agrícolas de EEUU." Notimex, Mayo 17 2002 and "What happened to free trade?" The Economist. May 13, 2002.

[52] On February 1944 Mexico and the U.S. signed the Water Treaty which delimits the rights of the two countries with respect to the waters along the border. Mexico agreed to deliver the U.S. 431 millions of cubic meters of water and in exchange and the U.S. should send Mexico 1850 millions of cubic meters.

[53] For technical understanding of this issue, it is recommended to look at: Deliveries of Waters Allotted to the United States Under Article 4 of the United States-Mexico Water Treaty of 1944. Report of the United States Section. International Boundary and Water Commission. April 2002. Available at http://www.ibwc.state.gov/NEW/what_s_new.htm

[54] Mary Jelly and Karen Chapman. "Sharing Waters." May 17, 2002. www.americaspolicy.org

CONCLUSIONS

NAFTA has different realities. Mexico arrived at the integration after a long decade of stagnation and the end of the oil dream. The exit to this thread of economic problems was the possibility of access to the United States' market. The U.S. came to the integration under the pressure of the changing international economy of the 1980's and the change in the political signs in the global arena, both of which helped it reformulate its old alliances without compromising its world leadership.

Mexico has a great pressure to maintain low wages. Among other factors, this pressure comes from the integration with the United States. Therefore, the adjustment exchange policy and the debate on the dollarization of the Mexican economy, will continue to be factors of great influence on the development of the country, until regional and industrial development policies manage to revert these pressures. The possibility to overcome the downward tendency of the salaries, not only in Mexico but in the United States as well, will be available only until Mexico can fill the enormous needs in the domestic labor market and reduce the wage breaches. With high rates of development, improvement of the qualification of its human resources, and an extended impact of integration, it might be possible. The Mexican suppliers, especially the small and medium companies, will also have to join their efforts with this dynamic, although it is difficult to manage this by themselves, as has been their experience so far. Entrepreneurial private and public policies will be required to encourage participation and to help bring together the great commerce and investment numbers with the thousands of business throughout the country.

Without doubt, NAFTA has fortified bilateral and regional economic dynamics, especially for the great actors of the private sector, whom have pushed Mexico towards a greater integration with the American economy. This is reflected mainly through the increase in the commercial exchange between both countries and in the investments that are made especially by the American companies. Nevertheless, an external logic exists among companies that do not belong to the North American region. These Asian and European companies, installed in Mexico, help push the Mexican economy towards a greater integration with the United States, since this market (the

U.S. market) is the final goal of their economic strategies. Every negotiation and commercial deal they arrange with Mexico, especially those that come from the other great economic blocks, are aimed towards the use of the Mexican economy as a gate to the American market.[55]

The dependency of Mexico of the American market is much greater than before the start of NAFTA. Under this new environment, it is not only important to insist on the diversification of commercial and economic policies in general, in the medium and long terms, but it is indispensable to construct a strategy of development within this reality. The asymmetries between both countries continue to be as enormous as at the beginning of the 1990's. Mexico needs an economic policy that can resist the pernicious effects and increase the positive impulses that the economic integration to the United States is creating in the Mexican economy. Mexico's main assets to carry this purpose in the near future are probably its organizational capacity and its originality in the adaptation and search of the most favorable alternatives within the evolution of this integration.

The Mexican economic integration to the United States, and therefore its dependency, is much greater now than it was in the past. It is mainly reflected in the extraordinary commercial dependency of that market and in the external financing needed for its development. In some sectors of the economy this integration is broad and dynamic; in others it is smaller and incipient, just like the Mexican regional development,[56] although the tendency is towards an even deeper economic integration to the U.S.

This integration has benefited both parties. Mexican maquiladoras have been important suppliers of US multinationals, especially in the automobile, electronic and textile industries, allowing them to maintain stable low prices to support their growth during the last decade. Cheap labor and a constant financial return - in terms of foreign debt service payment – have been Mexico's contribution and aid to the US economic development in the 90's.

[55] Mexico has signed various Free Trade Agreements involving 25 nations around the globe. Now there are negotiations to sign FTA's with Japan and Singapore.
[56] It is now spoken of the existence of "five Mexico's": (1) the one of the South; (2) the one of the North; (3) the one of the Mexico City and its metropolitan area; (4) the one of the Mexico-U.S. border region; and the one of the Mexican emigrants who temporarily or permanently live in the United States. See "Mexico Transforming." Op.cit. p. 18.

Moreover, since the opening policies adopted by Mexico in the 80's - but especially after NAFTA was signed-, the Mexican economy has become highly transnational, driven by huge external forces. A ferocious global competition and the lack of industrial policies have weakened and minimized the role of Mexican enterprises, especially medium and small companies that can not be integrated fully to this new dynamic. Therefore, foreign capital and investment are essential for the Mexican development. The economic control exerted by Multinationals is acute and it is advancing very quickly so far. Take the example of the Mexican banking system, which before 1994 had an insignificant foreign presence. Today its foreign control is almost 80%.
Finally, the U.S. economic slump has shown the level of integration and dependency of the Mexican economy. Practically the Mexican economic cycle is now dependent of the U.S. economic performance.

Recently President Fox declared that his administration was aiming at creating among US, Mexico and Canada, institutions similar to the European Union to address topics such as freedom for capital movements, goods, services and people. Whereas he recognized that it is a difficult objective he declared that they were aiming to set up the bases to create this relationship in 25 years. [57] Even though after S-11 events there has been greater cooperation between the three countries we cannot ignore that with the measures such as the "Smart Border Plan" the division lines had been reinforced. And while Canada can see it as an opportunity to transform this situation into a deeper form of integration, Mexico is still far from having the negotiating power to accomplish it.

We can say that Mexico has been an affected country by the S-11 events, since as the US declared the war against terrorism, it reinforced its security policies over its borders. The immigration deal has been postponed and people, vehicles and goods crossing the border find it more difficult. Moreover the shadow of US more interventionist policies into Mexican territory to search for "terrorists" could be very harmful to Mexican sovereignty. We must recall that in Chiapas there is the Zapatista movement and we do not know if some day in the future they can be labeled as terrorists.

[57] Arelí Quintero, "El objetivo, comunidad estilo UE con socios del TLC: Fox." El Economista. May 20, 2002.